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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000339

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SUBJECT: GOVERNMENT REFORMERS TRY TO WEAKEN THE SPONSORSHIP SYSTEM; BUSINESS PUSHES BACK

Classified By: CDA Christopher Henzel for reasons 1.4 (b) and (d).

¶11. (SBU) Summary: Bahrain's labor minister announced last month that new regulations will go some way toward loosening the legal hold that employers have over foreign workers, and enable some expatriates to switch from employer to employer more freely. International media reporting has oversimplified this development as an abolition of the sponsorship system. While employer/sponsors would indeed lose much of their hold over foreign workers if the new regulations go into effect, it remains to be seen whether Bahrain's powerful business community can delay or water down the reform. End summary.

Background on the Sponsorship System

¶12. (SBU) Since before Bahrain's independence in 1971, each member of the large expatriate work force in Bahrain (currently about half the population) has needed a Bahraini sponsor ("kafeel") formally to take responsibility for him or her in order to enter the country and work here legally. Foreign workers have always needed the written consent of their sponsor (and usually government paperwork as well) before moving to a job with a new sponsor. In Bahrain as in other Gulf countries, this system has long presented opportunities for abuse.

Calls for Reform

¶13. (C) With an eye toward reducing Bahrain's dependence on foreign workers (who are particularly resented by Bahrain's Shia underclass) and cutting down on abuse, reformist officials close to Crown Prince Salman bin Hamad Al-Khalifa have for several years publicly stated that it is their goal eventually to abolish the sponsorship system. Business interests oppose these reforms, and enjoy backing from officials close to Bahrain's Prime Minister, Khalifa bin Salman Al Khalifa.

¶14. (SBU) The tax imposed last year on businessmen who employ foreign workers was an important step toward reform. However, business interests pushed back hard, and managed to delay the reform and reduce the tax to BD 10 (USD 26) per worker per month. The new Labor Market Regulatory Authority (LMRA) is now collecting these taxes and applying the proceeds toward training Bahrainis.

¶15. (SBU) Reformists set as their next goal a new system that would permit expatriate workers already in the country legally to move freely from employer to employer. If enacted fully, this reform would weaken sponsors' leverage over employees, and reduce the potential for abuse. Not surprisingly, the business community has opposed this idea

from the beginning, while many neutral observers have questioned the feasibility of such changes.

May 12 Decree

¶6. (C) On May 12 reformers succeeded in promulgating a decree over the labor minister's signature, to go into effect August 1, that sets out revised procedures for expatriate workers who wish to request government permission to change jobs. Notably, most workers would no longer need their old employer's permission to move to a new employer. However, others will remain outside the scope of the new regulations: according to Ahmed Al Khabaz, LMRA's Director of Inspection and Special Projects, the new regulations, like many other current labor laws, will not apply to expatriate workers who are classified as "domestic help" -- housemaids, drivers, gardeners, cooks, and butlers. These will still need their old sponsors' permission to change jobs.

The Business Community Strikes Back

¶7. (SBU) Whether the May 12 decree is limited or not, the business community is dead set against any change.

¶8. (C) The Bahrain Chamber of Commerce and Industry (BCCI), which counts among its most powerful supporters Prime Minister Khalifa bin Salman Al Khalifa, has shown that it can slow or vitiate labor reforms that it doesn't like. For

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example, in 2007 the GOB moved to ban the transportation of laborers in the back of open trucks; as a result of BCCI opposition the order was not enforced until May, 2009. In March, 2009, Bahraini fishing boat owners, with BCCI backing, convinced the government to exempt them from the tax on expatriate workers.

¶9. (C) The BCCI is waging a similar lobbying campaign against the May 12 decree. BCCI's deputy CEO Yousif Al Mahdi told econoff that immediately following the announcement, BCCI pleaded its case to the Prime Minister, who ordered the Ministry of Labor (MOL) to form a committee, comprised of representatives from EDB, MOL, and BCCI, to examine the impact of the proposal and find ways to minimize any "negative effects." Al Mahdi warned that if the law is implemented on August 1 as ordered, "it will backfire against the government...BCCI supports the reform agenda and its goals, but feels that implementation must be done slowly and appropriately."

¶10. (SBU) The MOL committee has already recommended several measures that would weaken the reform. One of these proposals would limit expatriates to one job switch per year, with a minimum of 12 months with an employer before the worker could move. Expatriates would also be required to give their current employer 90 days' notice before they quit.

¶11. (SBU) The committee will continue to field proposals, and we don't know which the government will accept. LMRA's Al Khabaz remains optimistic that the GOB will fully implement the decree, despite the BCCI's objections. He told poloff that of the nine members of LMRA's executive board - who represent government ministries, the EDB, General Federation of Bahrain Trade Unions (GFBTU), and BCCI - only two voted against the order.

¶12. (C) Comment: The good news is that the behind-the-scenes struggles over labor reforms in recent years demonstrate that reformers around the Crown Prince can get their way given enough time. The bad news is that last month's media reports of the death of the sponsorship system are greatly

exaggerated. The May 12 decree would grant considerably more freedom to some foreign workers, but business interests will probably ensure that the government will not implement it fully on August 1.

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